

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Year Ending September 30, 2004

EXECUTIVE SUMMARY

The Export-Import Bank of the United States (Ex-Im Bank or Bank) is an independent agency and government corporation that operates as the official export credit agency of the United States. Its mission is to support U.S. exports by providing export financing through its loan, guarantee, and insurance programs in cases where the private sector is unable or unwilling to provide financing or to neutralize financing provided by foreign governments to their exporters when they are in competition for export sales with U.S. exporters. By facilitating the financing of U.S. exports, Ex-Im Bank helps companies create and maintain U.S. jobs. The Bank has assisted U.S. exporters to win export sales in over 120 markets throughout the world. In discharging its public policy role of supporting the export of U.S. goods and services, Ex-Im Bank accepts risks the private sector is unwilling or unable to take. However, the Bank does require reasonable assurance of repayment for the transactions it authorizes and closely monitors credit and other risks in its portfolio.

Ex-Im Bank authorized \$13,321.0 million of loans, guarantees and insurance during FY 2004 which supported \$17,834.1 million of U.S. export sales. This is the highest level for the past five fiscal years. Over that time, annual authorizations have ranged from \$9,241.5 million to \$13,321.0 million supporting U.S. export sales of \$12,525.7 million to \$17,834.1 million.

New authorizations for direct small business exports in FY 2004 totaled \$2,257.0 million, up from \$2,075.2 million in FY 2003. The number of small business transactions increased from 2,258 in FY 2003 to 2,572 in FY 2004. Ex-Im Bank's direct support for the small business sector, primarily through working capital guarantees and short-term insurance, has ranged from \$1,658.0 million to \$2,330.0 million over the past five fiscal years. The Bank also supports additional billions of dollars of indirect small business exports where the small business is a supplier to a larger U.S. exporter.

Ex-Im Bank's exposure at the end of FY 2004 totaled \$61,148.2 million, which is approximately the same level as the prior five fiscal years. Of this total, the Bank's largest exposure is in the aircraft sector, accounting for 38.4 percent of total exposure. The highest geographic concentration of exposure is in Asia, with 29.4 percent of the total.

The program composition of Ex-Im Bank's credit portfolio has not significantly changed over the past five fiscal years. Direct loans comprise approximately 15.9 percent of total exposure, while insurance and guarantee programs account for the remainder.

While most of Ex-Im Bank's financings are denominated in U.S. dollars, Ex-Im Bank also guarantees notes denominated in certain foreign currencies. In FY 2004, Ex-Im Bank approved \$1,632.9 million

in foreign currency transactions, a slight decrease from the prior fiscal year. The Bank anticipates that its outstanding exposure for authorizations denominated in a currency other than the U.S. dollar will continue to grow.

The Bank classifies its credits into 11 risk categories, with level one being the least risky. Using this scale, level 3 approximates Standard and Poor's BBB, level 4 approximates BBB-, and level 5 approximates BB. The Bank's overall weighted-average-risk rating has improved from 5.03 to 4.07 on new authorizations for FY 2003 and FY 2004, respectively. Fifty percent of Ex-Im Bank's medium-term and long-term new authorizations in FY 2004 fell in the level 3-to-5 range (BBB to BB).

Net income for FY 2004 was \$2,044.4 million as compared to \$641.4 million in FY 2003. At the end of fiscal year 2004, the Bank's reserve against credit loss was \$9,613.4 million, or approximately 15.7 percent of total credit exposure.

Ex-Im Bank has consolidated certain variable interest entities (VIEs) for which it was determined that the Bank is the primary beneficiary, to comply with Financial Accounting Standard Board's Financial Interpretation Number 46 (FIN 46) and FIN 46(R). At September 30, 2004, consolidated net lease receivables were \$3,815.2 million and consolidated borrowings were \$4,008.5 million. In accordance with FIN 46 and FIN 46(R), the Bank plans to consolidate an additional \$5,400.0 million of net outstanding leases and borrowings as of October 1, 2004. This will not alter the risk profile of the Bank's business since these guaranteed borrowings have been previously accounted for as contingent liabilities rather than consolidated transactions.

I. DESCRIPTION OF BUSINESS

Ex-Im Bank supports the financing of U.S. exports of goods and services thereby helping maintain and create U.S. jobs. In financing exports, Ex-Im Bank supplements private sector financing by assuming credit risks the private sector is unable or unwilling to accept.

In its more than 70 years of operations, Ex-Im Bank has supported more than \$455 billion of U.S. exports, primarily to developing markets.

The Export-Import Bank of the United States was established by executive order of President Franklin D. Roosevelt in 1934 as a District of Columbia banking corporation. The Export-Import Bank Act of 1945 (the “Act”) reincorporated Ex-Im Bank as a U.S. government corporation. This Act, which has been amended by Congress over the years, is the basic legal authority for Ex-Im Bank’s operations. The most recent amendment to the Act was the Export-Import Bank Reauthorization Act of 2002, which reauthorized Ex-Im Bank through September 30, 2006, and increased its financing capacity.

Mission

Ex-Im Bank is the official export credit agency of the United States. The mission of the Bank is to facilitate U.S. exports by providing competitive export financing in situations where U.S. exporters are facing foreign competition backed by officially supported financing or the private market is unwilling or unable to offer export financing. Ex-Im Bank financing is predicated on a determination that reasonable assurance of repayment exists. Ex-Im Bank enables U.S. companies — large and small — to turn export opportunities into sales that help to maintain and create U.S. jobs and contribute to a stronger national economy.

The Bank provides direct loans (buyer financing), loan guarantees, working capital guarantees (pre-export financing), and export credit insurance. On average, 85 percent of the Bank’s transactions directly benefit U.S. small businesses.

Products

Direct Loans: The Direct Loan Program is a foreign buyer credit program in which Ex-Im Bank makes a loan to a foreign buyer to purchase U.S. exports. Ex-Im Bank’s loan disbursements go directly to the U.S. exporter as the export products are shipped to the foreign buyer.

Loan Guarantees: Ex-Im Bank loan guarantees cover the repayment risks on the foreign buyer’s debt obligations incurred to purchase U.S. exports. Ex-Im Bank guarantees to a lender that, in the event of a payment default by the borrower, the Bank will pay to the lender the out-

standing principal and interest on the loan. Ex-Im Bank’s comprehensive guarantee covers 100 percent of the commercial and political risks for up to 85 percent of the U.S. contract value of the export transaction.

Working Capital Guarantees: The Working Capital Guarantee Program is a pre-export financial tool to enable U.S. exporters to obtain necessary working capital in order to fulfill export sales orders. Ex-Im Bank’s working capital guarantees enable U.S. exporters to obtain loans to produce or buy goods or services for export. These working capital loans, made by commercial lenders and backed by the Bank’s guarantee, provide exporters with the liquidity to accept new export business, grow international sales and compete more effectively in the international marketplace.

Export Credit Insurance: The Export Credit Insurance program helps U.S. exporters develop and expand their overseas sales by protecting them against loss should a foreign buyer or other foreign debtor default for political or commercial reasons.

II. NEW BUSINESS

The amount of new loans, guarantees and insurance that Ex-Im Bank authorizes each year is dependent on export sales by U.S. exporters who need Ex-Im Bank’s export credit support to win these sales. These export sales are in turn dependent on domestic and international political, economic and financial conditions, and on the competitiveness of U.S. products in world markets.

Ex-Im Bank has supported U.S. exports predominantly to Asia, Latin America and Eastern Europe. Many trade experts expect continued economic expansion in these areas in the future. World trade in general is also expected to substantially increase. The Bank believes that these factors will contribute to a greater demand for Ex-Im Bank financing assistance.

The Bank will continue to emphasize its programs which support the export sales of U.S. small businesses. Ex-Im Bank authorized 2,572 transactions supporting small business exports which totaled \$2,257.3 million in FY 2004, and the Bank expects that amount to grow in the future.

FY 2004 Authorizations

Exhibit 1 shows authorizations for the past five fiscal years. During FY 2004, Ex-Im Bank authorized \$13,321.0 million of loans, guarantees and insurance, an increase of almost 26.8 percent over the \$10,507.2 million authorized in FY 2003, and the highest total over the past five years.

Authorizations have fluctuated from \$9,241.5 million to \$13,321.0 million during the past five years as shown in Exhibit 1.

Exhibit 1: Authorizations

(in millions)	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
LONG-TERM					
Loans	\$227.1	\$52.7	\$295.6	\$857.8	\$930.9
Guarantees	7,112.1	6,422.9	6,180.2	4,736.3	6,911.0
Subtotal, Long-Term	7,339.2	6,475.6	6,475.8	5,594.1	7,841.9
MEDIUM-TERM					
Loans	0.0	5.6	0.0	13.4	1.7
Guarantees	540.6	554.1	543.1	704.5	914.1
Insurance	911.5	678.4	666.8	475.4	880.4
Subtotal, Medium-Term	1,452.1	1,238.1	1,209.9	1,193.3	1,796.2
SHORT-TERM					
Working Capital	880.4	768.0	684.8	660.2	588.3
Insurance	3,649.3	2,025.5	1,748.7	1,793.9	2,410.7
Subtotal, Short-Term	4,529.7	2,793.5	2,433.5	2,454.1	2,999.0
TOTAL AUTHORIZATIONS	\$13,321.0	\$10,507.2	\$10,119.2	\$9,241.5	\$12,637.1

Estimated Cost of New Authorizations Under the Credit Reform Act

Under the Federal Credit Reform Act of 1990 (P.L. 101-508), which took effect on October 1, 1992, U.S. government lending agencies are required to estimate the cost of making their loans and loan guarantees and to seek an appropriation from Congress to cover that cost. Loans and guarantees may not be committed unless sufficient appropriations are available to cover the calculated cost.

Under credit reform, the U.S. government budgets for the present value of the estimated cost of credit programs not covered by fees, excluding administrative expenses. This cost, known as the “subsidy cost” or “program budget cost,” is defined as the net present value of all the cash flows of the credits to and from the U.S. government. Agencies must establish cash flow estimates for expected defaults, fees and recoveries to estimate the subsidy cost as a part of the budget process.

FY 2004 Program Budget

The appropriation of program budget required, if any, depends on the fee charged and the risk level of each authorization. The amount of appropriation required for FY 2004 authorizations has significantly declined compared to FY 2003 because the risk profile of credits authorized in FY 2004 is less risky than the risk profile of credits authorized in FY 2003. This is seen in the improvement in the weighted-average-risk rating for new authorizations which went from 5.03 in FY 2003 to 4.07 in FY 2004. The leverage ratio, which is the amount of authorizations supported by each dollar of program budget, has also improved compared to FY 2003 as a result of the same factors. In FY 2003, each dollar of program budget supported \$31.5 of authorizations, while in FY 2004, each dollar of program budget supported \$47.7 in authorizations, an increase of 51.4 percent.

The following chart shows the total amount authorized, the corresponding usage of program budget, and the leverage for the past five years. Authorization levels since FY 2001 have been steadily increasing, while program budget levels have gradually decreased. The amount of program budget required decreased between FY 2002 and FY 2003 due to OMB lowering the Interagency Country Risk Assessment System (ICRAS) risk premium (see Significant Factors Influencing Financial Results section), while the program budget decline between FY 2003 and FY 2004 is due to the reasons noted above.

Exhibit 2: Authorization Levels and Program Budget Required

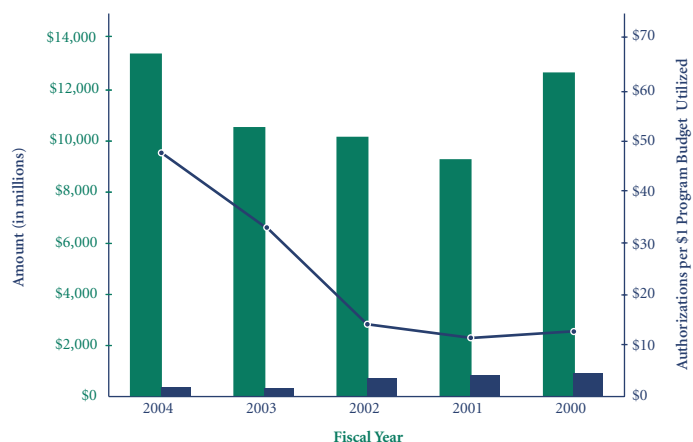


Exhibit 2 (Data)

	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
█ Authorizations	\$13,321.0	\$10,507.2	\$10,119.2	\$9,241.5	\$12,637.1
█ Program Budget Used	\$279.2	\$334.0	\$738.0	\$826.0	\$928.0
--- Leverage	47.7	31.5	13.7	11.2	13.5

Small Business Authorizations in FY 2004

A major goal of Ex-Im Bank is to expand U.S. small business exports. Ex-Im Bank offers two products that primarily benefit small business – working capital guarantees and short-term insurance.

In FY 2004, \$620.3 million, or 70.4 percent, of total authorizations in the Working Capital Guarantee Program supported small business. Of total authorizations under the Short-Term Insurance Program, \$1,570.6 million, or 43.0 percent, supported small business.

The following exhibit shows the total dollar amount of authorizations for small business exports for each year since FY 2000, together with the percentage for each year of the small business authorizations to total authorizations for that year.

Exhibit 3: Small Business Authorizations

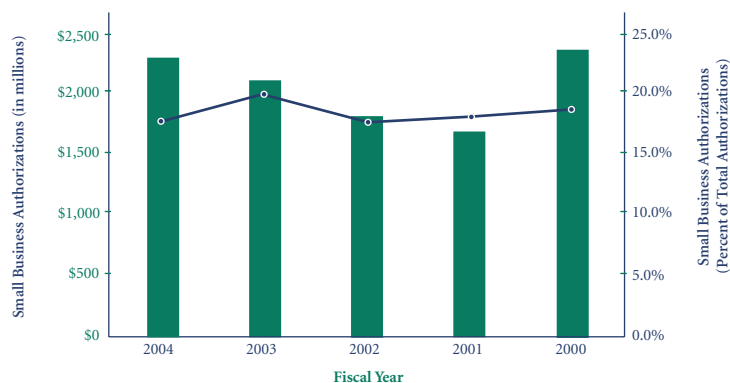


Exhibit 3 (Data)

	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
█ Authorizations	\$2,257.3	\$2,075.2	\$1,782.0	\$1,658.0	\$2,333.0
--- Percentage	16.9%	19.8%	17.6%	17.9%	18.5%

Although the small business percentage of total authorizations declined in FY 2004, the amount authorized for direct small business exports increased 8.8 percent from \$2,075.2 million in FY 2003 to \$2,257.3 in FY 2004.

Foreign Currency Transactions

Ex-Im Bank provides support for guarantees and insurance denominated in certain foreign currencies. The foreign currencies approved for Ex-Im Bank transactions as of September 30, 2004, are: Australian dollar, Brazilian real, British pound, Canadian dollar, CFA franc, Colombian peso, euro, Japanese yen, Mexican peso, Moroccan dirham, New Zealand dollar, Philippine peso, Russian ruble, South African rand, Swedish krona, and Swiss franc. At the time of authorization, Ex-Im Bank records as the authorization the dollar amount equivalent to the foreign currency obligation based on the exchange rate at that time. In FY 2004, Ex-Im Bank approved \$1,632.9 million in transactions denominated in a foreign currency. In FY 2003, Ex-Im Bank approved \$1,745.7 million in transactions denominated in a foreign currency.

Exhibit 4: Foreign Currency Transactions

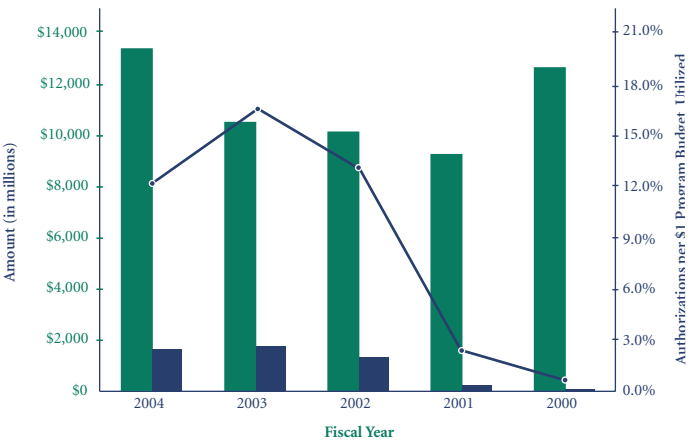


Exhibit 4 (Data)	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
■ Authorizations	\$13,321.0	\$10,507.2	\$10,119.2	\$9,241.5	\$12,637.1
■ Foreign Currency Authorizations	\$1,632.9	\$1,745.7	\$1,322.0	\$213.3	\$91.6
--- Percentage	12.3%	16.6%	13.1%	2.3%	0.7%

As seen in the chart above, the percentage of foreign currency authorizations to total authorizations has increased significantly over the past five years. This increase is attributable in large part to borrowers’ desire to borrow funds in the same currency as they earn funds, in order to mitigate the risk involved with exchange fluctuations. The majority of the foreign currency authorizations are for support of U.S. exports of commercial jet aircraft.

III. FINANCIAL RESULTS OF OPERATIONS

The following table presents certain financial data from the Statement of Financial Position and the Statement of Operations as of September 30, 2004. This financial data is highlighted due to a significant change (15 percent or more) between FY 2004 and FY 2003. More detailed financial information can be found in the financial statements.

Exhibit 5: Significant Financial Data

(in millions)	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
Receivable from Subrogated Claims, Net	\$1,272.4	\$1,504.1	\$1,776.0	\$2,141.0	\$2,107.0
Lease Receivables Consolidated from VIEs	3,815.2	803.9	N/A	N/A	N/A
Payment Certificates	448.5	593.0	785.6	931.1	289.0
Borrowings Consolidated from VIEs	4,008.5	841.0	N/A	N/A	N/A
Allowance for Guarantees, Insurance and Undisbursed Loans	6,077.7	7,263.6	7,069.6	6,411.5	7,030.0
Amounts Payable to the U.S. Treasury	751.5	1,943.5	3,621.0	557.0	1,575.0
Other Liabilities	83.3	108.3	77.5	977.7	837.5
Credit Appropriations	444.9	574.9	296.5	190.6	38.8
Accumulated Deficit	(5,741.1)	(6,718.6)	(5,303.9)	(2,230.3)	(1,621.9)
Interest on Loans	734.7	613.2	826.6	740.1	838.8
Interest on Leases Consolidated from VIEs	83.3	7.7	N/A	N/A	N/A
Interest on Cash and Cash Equivalents	218.9	302.6	341.6	416.3	582.6
Interest on Borrowings Consolidated from VIEs	83.3	7.7	N/A	N/A	N/A
Other Income	100.7	37.0	8.5	15.8	42.6
Guarantee Amortization	679.8	N/A	N/A	N/A	N/A
Operating Income	1,539.3	754.6	908.0	866.0	1,047.0
Provision for Credit and Claim Losses	(505.1)	113.2	726.0	(195.0)	701.0
Net Income	\$2,044.4	\$641.4	\$182.0	\$1,061.0	\$346.0

Receivables from Subrogated Claims, Net

The subrogated claims amount is net of an allowance for claim losses. This allowance reflects risk ratings specific to the entities involved in particular transactions. The net amount of claims receivable was \$1,272.4 million at September 30, 2004, and was \$1,504.1 million at September 30, 2003. The overall risk rating for total claims receivable is more risky in FY 2004 than FY 2003; the amount of claims rated between 9-11 increased by 9 percent since the end of FY 2003. Additionally, the loss percentages applied to each of these levels was slightly higher than in FY 2003. These factors caused an increase in the allowance for claim losses, thereby accounting for the decrease in net subrogated claims from \$1,504.1 million at the close of FY 2003 to \$1,272.4 million at September 30, 2004, a decrease of \$231.7 million.

Lease Receivables Consolidated from VIEs

Lease receivables consolidated from VIEs increased from \$803.9 million in FY 2003 to \$3,815.2 million due to the consolidation of 21 additional VIEs in FY 2004 for which Ex-Im Bank is the primary beneficiary. Ex-Im Bank consolidated all VIEs for which the Bank is the primary beneficiary

authorized subsequent to January 31, 2003, and will consolidate all such VIEs originating prior to this date in FY 2005 to comply with FIN 46. The Borrowings Consolidated from VIEs increased for the same reason.

Payment Certificates

Payment certificates decreased from \$593.0 million at September 30, 2003 to \$448.5 million as of September 30, 2004. Ex-Im Bank offers the option to the guaranteed lender to receive payment certificates in lieu of an immediate cash payment for the entire outstanding balance of the guaranteed notes when approving claims on defaulted fixed rate notes. The payment certificates are direct obligations of Ex-Im Bank and are freely transferable. The balance declined during FY 2004 as the payments made by Ex-Im Bank on existing payment certificates exceeded the issuance of new payment certificates.

Allowance for Guarantees, Insurance and Undisbursed Loans

The allowance for guarantees, insurance and undisbursed loans decreased from \$7,263.6 million in FY 2003 to \$6,077.7 million in FY

2004 due to the amortization of the guarantees under FIN 45 as well as the lower overall risk in the portfolio at the end of fiscal year 2004.

Amounts Payable to the U.S. Treasury

The amounts payable to the U.S. Treasury decreased by \$1,192.0 million from \$1,943.5 million at the end of FY 2003 to \$751.5 million at the end of FY 2004. The amount payable to the Treasury is based on the re-estimate of the program budget cost of the outstanding balances of fiscal years 1992 through 2003 commitments. As the amount re-estimated on the remaining program budget cost has declined, the amount payable to the Treasury at the end of the year has correspondingly declined.

Other Liabilities

Other liabilities have decreased from \$108.3 million at September 30, 2003, to \$83.3 million at September 30, 2004, due to a decrease in the amount of funds held pending application.

Credit Appropriations

Credit appropriations declined from \$574.9 million at September 30, 2003, to \$444.9 million at September 30, 2004. Due to availability of unobligated balances carried over from the prior year, no appropriation was necessary in FY 2004 to cover the estimated program budget cost of providing new direct loans, guarantees and insurance. Consequently, Ex-Im Bank's budget request to the Congress for FY 2004 did not contain a request for a program budget appropriation.

Interest on Loans

Ex-Im Bank's interest on loans increased by \$121.5 million from \$613.2 million at the end of FY 2003 to \$734.7 million at September 30, 2004. When interest is capitalized as a result of a debt rescheduling, the amount of interest capitalized is deducted from interest income for that year. A smaller amount of capitalized interest was deducted in FY 2004 than in FY 2003, resulting in higher interest income in FY 2004.

Interest on Lease Receivables

The interest on lease receivables from consolidated VIEs has increased from \$7.7 million in FY 2003 to \$83.3 million in FY 2004. In FY 2003, FIN 46 required consolidation of VIEs authorized subsequent to January 31, 2003, thereby resulting in a partial year of interest accrual on these lease receivables. Interest on lease receivables increased in FY 2004 because these receivables accrued interest for a full year. Interest was also accrued for an additional 21 VIEs consolidated in FY 2004.

Interest on Cash and Cash Equivalents

Interest on cash and cash equivalents declined from \$302.6 million at September 30, 2003 to \$218.9 million at September 30, 2004, because Ex-Im Bank's credit reform financing account balances declined during FY 2004. This decline resulted from funds remitted to the Treasury because the re-estimate of program budget indicated that those funds were no longer needed.

Guarantee Amortization

Guarantee amortization reflects the amortization of the FIN 45 noncontingent obligation during FY 2004 as the related exposure decreased. In FY 2004, the amortization of the noncontingent obligation under FIN 45 was \$679.8 million, which is included in Guarantee Amortization on the Statement of Operations. The amortization of the noncontingent obligation is a new requirement in FY 2004 under Fin 45. See Note 10 to the financial statements for Ex-Im Bank's calculation of guarantee amortization.

Other Income

Other income increased from \$37.0 million for FY 2003 to \$100.7 million for FY 2004 due to recoveries on paid claims in excess of amounts originally paid because of interest charged on the claim.

Provision for Credit and Claims Losses

Ex-Im Bank evaluates its loan and guarantee portfolio to establish an allowance for credit and claims losses. The change in the allowance from one year to the next, adjusted for net write-offs, is the provision for losses that is charged to that year's income. The net change in the provision for FY 2004 is \$618.3 million, from a charge of \$113.2 million at the end of FY 2003 to a credit of \$505.1 million at September 30, 2004. The change in the provision is due primarily to the fact that the risk rating on the overall portfolio decreased from 5.49 in FY 2003 to 5.30 in FY 2004, which resulted in lower loss percentages compared to the prior year.

Exhibit 6 summarizes the allowance for credit losses as of September 30, 2004. The table highlights the allowance at the beginning of the year, any changes during the year, and the allowance at the end of the year. As can be seen, the allowance for credit losses has remained relatively stable over the past five years. More detailed financial information can be found in the notes to the financial statements.

Exhibit 6: Allowance for Credit Losses

(in millions)	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
BALANCE AT BEGINNING OF YEAR:					
Allowance for Loan Losses	\$1,975.7	\$2,341.0	\$2,635.5	\$2,149.9	\$2,135.0
Allowance for Claim Losses	1,586.3	1,910.8	1,608.2	1,691.7	1,760.7
Allowance for VIE Lease Receivables	37.0	N/A	N/A	N/A	N/A
Allowance for Guarantees, Insurance and Undisbursed Loans	7,263.6	7,069.6	6,411.5	7,030.0	6,335.1
TOTAL	10,862.6	11,321.4	10,655.2	10,871.6	10,230.8
PLUS NET WRITE-OFFS:					
Loans	(12.9)	(216.0)	(43.6)	(1.7)	(28.9)
Claims	(51.4)	(356.0)	(16.4)	(19.6)	(31.3)
TOTAL	(64.3)	(572.0)	(60.0)	(21.3)	(60.2)
PLUS PROVISION (CREDITED)/CHARGED TO OPERATIONS:					
Provision for Loan Losses	(249.1)	(149.3)	(250.9)	487.3	43.8
Provision for Claim Losses	93.8	31.5	319.0	(63.9)	(37.7)
Provision for VIE Lease Receivable Losses	156.3	37.0	N/A	N/A	N/A
Provision for Guarantees, Insurance and Undisbursed Loans	(506.1)	194.0	658.1	(618.5)	694.9
TOTAL	(505.1)	113.2	726.2	(195.1)	701.0
PLUS GUARANTEE AMORTIZATION	(679.8)	N/A	N/A	N/A	N/A
BALANCE AT END OF YEAR:					
Allowance for Loan Losses	1,713.7	1,975.7	2,341.0	2,635.5	2,149.9
Allowance for Claim Losses	1,628.7	1,586.3	1,910.8	1,608.2	1,691.7
Allowance for VIE Lease Receivables	193.3	37.0	N/A	N/A	N/A
Allowance for Guarantees, Insurance and Undisbursed Loans	6,077.7	7,263.6	7,069.6	6,411.5	7,030.0
TOTAL	9,613.4	10,862.6	11,321.4	10,655.2	10,871.6
TOTAL EXPOSURE	\$61,148.2	\$60,812.0	\$58,117.6	\$58,425.5	\$61,595.7
Allowance as % of Exposure	15.7%	17.9%	19.5%	18.2%	17.6%

Major Workouts: At the end of FY 2004, Ex-Im Bank was in the process of restructuring 11 major impaired credits (where aggregate exposure to the borrower is in excess of \$20 million) with a total exposure of approximately \$669.2 million, a 10.4 percent reduction from the total of impaired credits at September 30, 2003. This is attributable to the conclusion during FY 2004 of three major restructurings: Uch Power (Pakistan), Jindal Iron & Steel (India), and Mabuhay Philippines Satellite Corp. (Philippines). The credits currently under restructuring supported the export of U.S. products and services to projects and buyers in Indonesia, Mexico, Argentina, Brazil, Thailand, Dominican Republic, Nauru, India and Pakistan. All of these companies have other lenders with which Ex-Im Bank is participating in the restructuring processes.

The four largest restructurings are Central Puerto, a power generation company located in Argentina; Thai Petrochemical Industry Co., a fully integrated petroleum/petrochemical company in Thailand; Saba Power Company Limited, a power generation company located in Pakistan; and Alto Hornos de Mexico, a major steel company located in Mexico.

Paris Club Activities in FY 2004: The Paris Club is a group of 20 permanent member creditor countries that meet regularly in Paris to discuss and provide debt relief to qualifying debtor countries. During FY 2004, Ex-Im Bank signed and implemented bilateral agreements to provide public sector debt relief in the form of debt forgiveness and/or debt rescheduling, including capitalized interest, to 15 countries. In FY 2003, 13 countries received either debt forgiveness or debt rescheduling.

Exhibit 7: Paris Club Bilateral Agreements

(in thousands)

FY 2004		
Country	Principal Forgiven	Debt Rescheduled
Cameron	\$3,503	
DRC (Zaire)	10,732	\$36,903
Ghana	2,398	
Guinea	65	
Guyana	3,110	
Honduras	1,766	
Indonesia		13,237
Madagascar	1,528	
Niger	54	
Nigeria		915,934
Nicaragua	822	
Pakistan		2,413
Philippines	1,864	
Yugoslavia		8,452
Zambia	4,569	
TOTAL	\$30,411	\$976,939

FY 2003		
Country	Principal Forgiven	Debt Rescheduled
Bolivia	\$10,047	-
Cameroon	3,381	
Coite d'Ivoire	39,397	\$26,715
DRC (Zaire)	455,877	597,227
Ghana	2,536	
Indonesia		259,329
Macedonia		10,523
Mauritania	6,597	
Nicaragua	2,339	
Niger	602	
Pakistan		220,053
Rwanda	882	
Yugoslavia	154,728	274,014
TOTAL	\$676,386	\$1,387,861

The amount written off against the reserve in FY 2004 includes \$12.9 million in loan write-offs and \$51.4 million in claim write-offs for a total write-off of \$64.3 million. The difference between amounts charged to the reserves and Paris Club principal forgiveness reflect \$39.6 million of non-sovereign subrogated claims included in the write-off to the reserve but not included in the Paris Club principal forgiveness and \$5.7 million in capitalized interest not included in the reserve write-off but included in the Paris Club principal forgiveness.

The amount written off to the reserve in FY 2003 includes \$216.0 million in loan write-offs and \$356.0 million in claim write-offs for a total write-off of \$572.0 million. The difference between the charge to the reserve and Paris Club principal forgiveness reflect \$14.8 million of non-sovereign subrogated claims included in the charge to the reserve but not included in the Paris Club principal forgiveness and \$119.2 million in capitalized interest not included in reserve write-off but included in the Paris Club principal forgiveness.

Net Income

Net income increased by \$1,403.0 million from \$641.4 million at the end of FY 2003 to \$2,044.4 million at September 30, 2004. This increase is due to the net change in the provision for credit losses described above, and the amortization credited to other income under FIN 45.

Other Significant Items

Foreign Currency Adjustment

As of September 30, 2004, Ex-Im Bank guarantees denominated in a foreign currency totaled \$4,800.9 million. The Bank does not hedge its foreign currency exposure, consequently changes in the value of the dollar related to the foreign currencies the Bank guarantees changes the Bank's dollar liability. The Bank recorded a foreign currency adjustment of \$547.9 million to reflect transaction exchange rates at September 30, 2004.

Accumulated Deficit

Total accumulated deficit decreased by \$977.5 million from \$6,718.6 million at the end of FY 2003 to \$5,741.1 million at September 30, 2004. The Statement of Changes in Equity and Accumulated Deficit in the financial statements details the changes in accumulated deficit.

IV. SIGNIFICANT FACTORS INFLUENCING FINANCIAL RESULTS

The most significant factor that determines Ex-Im Bank's financial results and condition is a change in the risk level of Ex-Im Bank's loan, guarantee and insurance portfolio, and the adjustment to the allowance for credit losses that must be made to reflect the change in risk. The level of risk of individual credits or groups of credits may change in an unpredictable manner as a result of international financial, economic and political events. Consequently, significant and unanticipated changes in Ex-Im Bank's allowance for credit losses may occur in any year.

Also, Ex-Im Bank makes fixed-rate loan commitments prior to borrowing to fund loans and takes the risk that it will have to borrow the funds at an interest rate greater than the rate charged on the credit. In the event this occurs, a U.S. Treasury appropriation account is available to Ex-Im Bank to cover the loss.

Additionally, as noted elsewhere in this report, Ex-Im Bank has a growing portfolio of guarantees of export credits denominated in foreign currencies. If the obligor defaults, Ex-Im Bank must use dollars to purchase foreign currency to pay the guaranteed lender. Ex-Im Bank does not hedge the risk that the value of the dollar to the foreign currency may change significantly from the time the guarantee was issued. As the Bank expects its portfolio of guaranteed foreign currency loans to grow in the future, this risk will become more significant.

In fulfilling its mission to facilitate U.S. exports by providing competitive export financing, Ex-Im Bank must balance the risks associated with assuming credit and country risks that the private sector is unable or unwilling to accept with the requirement of reasonable assurance of repayment for its credit authorizations.

The major risks to the Bank in its credit portfolio are repayment risk and concentration risk. Other risks the Bank must assess and attempt to minimize are foreign currency risk, operational risk and organizational risk.

Repayment Risk: The risk that a borrower will not pay according to the original agreement and the Bank may eventually have to write-off some or all of the obligation. Repayment risk is primarily composed of:

- **Credit Risk:** The risk that an obligor may not have sufficient funds to service its debt or may not be willing to service its debt even if sufficient funds are available.
- **Political Risk:** The risk that payment may not be made to the Bank, its guaranteed lender or an insured as a result of expropriation of the obligor's property, war or inconvertibility of the borrower's currency into dollars.

Concentration Risk: Risks stemming from the composition of the credit portfolio as opposed to risks related to specific borrowers. The Bank has the following concentration risks:

- **Industry:** The risk that events could negatively impact not only one company but many companies at the same time that are in the same industry. The Bank's credit exposure is highly concentrated by industry – 60 percent of the Bank's credit portfolio is in three industries - airlines, oil and gas, and power with aircraft representing 38.4 percent of the Bank's total exposure. Events impacting these industries are frequently international in nature and may not be confined to a specific country or geographic area.

- **Geographic Region:** The risk that events could negatively impact not only one country but at the same time many countries in an entire region. Fifty-four percent of Ex-Im Bank's portfolio is contained in two geographic regions - Asia (29.4 percent) and Latin America (25.5 percent).
- **Obligor:** The risk when a credit portfolio is concentrated with one or a few borrowers that a default by one or more of those borrowers will have a disproportionate impact. The Bank's 10 largest obligors make up 28 percent of its portfolio.

Foreign Currency Risk: Risk stemming from an appreciation or depreciation in the value of a foreign currency related to the U.S. dollar in Ex-Im Bank transactions denominated in that foreign currency. At the time of authorization, Ex-Im Bank does not hedge its foreign currency exposure; however, when the Bank pays claims under foreign currency guarantees, the notes are converted from a foreign currency obligation to a dollar obligation. The obligor must then repay to Ex-Im Bank the balance in dollars. This converts the foreign currency loan to a dollar loan at that point, thereby eliminating any further foreign exchange risks.

Operational Risk: The risk of material losses resulting from human error, system deficiencies and control weaknesses. Ex-Im Bank has established policies and procedures to mitigate operational risk.

Organizational Risk: The risk of loss to Ex-Im Bank due to the organizational environment - people and skills, incentives, culture and values. Ex-Im Bank hires highly qualified individuals and has a culture of rigorous risk assessment. Continual training opportunities are offered to all employees to maintain and enhance their high skill levels.

Interest Rate Risk: This risk is described in the section on fixed rate loans above.

The Interagency Country Risk Assessment System (ICRAS)

The Office of Management and Budget (OMB) established ICRAS to provide a framework for uniformly measuring the costs of the U.S. government's international credit programs across the various agencies that administer them. To operate this framework, OMB chairs an interagency working group composed of the agencies with international loan programs, as well as the Departments of State and Treasury, the Federal Deposit Insurance Corporation and the Federal Reserve Board. In addition, OMB consults annually with the Congressional Budget Office.

The ICRAS methodology determines both the risk levels for lending to sovereign governments as well as certain factors to be used in calculating the program budget cost for transactions at the various risk levels.

One of OMB's key goals in developing this system was to pattern ICRAS after systems in the private sector. Therefore ICRAS adopts similar ratings and rating methodologies as the private rating agencies, such as Moody's, Standard & Poor's and Fitch IBCA.

Risk Ratings

The interagency group rates every country to which U.S. government agencies have outstanding loans or loan guarantees or are anticipating making new credits available. The interagency group has established 11 sovereign and nine non-sovereign risk categories and currently has risk ratings for 184 markets.

Like the private sector risk-rating agencies, ICRAS rates countries on the basis of economic and political/social variables. Each country receives two ratings: a sovereign-risk rating and a private-risk rating. In keeping with the principle of congruence to private ratings, throughout the rating process analysts use private sector ratings as one of the benchmarks for determining the ICRAS rating. When ICRAS ratings significantly deviate from Moody's, S&P's, Fitch IBCA's or OECD ratings, the reasoning is substantiated in the ICRAS paper and is the subject of interagency discussion. This presumption serves as a key reference point throughout the ICRAS process.

The ratings are based, in general, on a country's (1) ability to make payments, as indicated by relevant economic factors, and (2) willingness to pay, as indicated by payment record and political and social factors. Four categories, ratings 1 through 4, are roughly equivalent to "creditworthy" or "investment grade" private bond ratings. Three categories, ratings 9 to 11, are for countries either unable to pay fully, even with extended repayment periods, or currently unwilling to make a good faith effort. In between are categories reflecting various degrees of potential or actual payment difficulties.

ICRAS Risk Premia

In order to determine the cost associated with the risk of lending to a category of credits, OMB applies a risk premium to each category that reflects the expected losses.

OMB bases its calculations of the risk premia on investors' risk-return perceptions on international debt instruments. The premia were established using data from international debt markets that reflected changes in financial market conditions over the past seven years. An extensive analysis was done of international lending rates so that the premia would most accurately reflect the market's evaluation of default risk.

Agencies apply these premia by comparing the present value cash flows discounted using a risk-free U.S. Treasury rate, against the present value of identical cash flows discounted by a risk-adjusted discount rate built from the risk-free U.S. Treasury rate plus the historical average spread for the risk category of the transaction under evaluation (the risk premia). The difference between these two present values is the present value of estimated defaults. This present value default amount is spread over the maturity of the proposed transaction and is discounted using the standardized OMB Credit Subsidy Calculator.

In 2002, OMB adjusted the risk premia for certain noncredit factors so that the revised risk premia reflect only estimates of probable credit losses. The risk premia were derived from the historical average interest rate differences or “spreads” between U.S. Treasury instruments and similar-term dollar-denominated sovereign bonds of similarly rated countries.

Transaction Risk Evaluation

Ex-Im Bank requires a reasonable assurance of repayment for all credit authorizations. The Credit and Risk Management Division evaluates applications for loan guarantees, export credit insurance and direct loans, with the exception of transportation and structured finance transactions, to assess if those applications meet Ex-Im Bank risk criteria. Specialists in the Transportation Division and Structured Finance Division analyze credit applications for those types of transactions.

The Bank’s board of directors, credit committee or a bank officer acting pursuant to delegated authority makes the final determination of reasonable assurance of repayment taking into consideration staff recommendations. Transactions resulting in over \$10 million in exposure generally require the approval of the board of directors. All other transactions require the approval of either 1) the Bank’s credit committee, whose voting members consist of five designated senior managers, and a member of the board of directors serving as an ex-officio member, or 2) a Bank officer acting pursuant to authority delegated by the board of directors.

Portfolio Risk Monitoring and Evaluation

Ex-Im Bank continuously monitors its portfolio of credits after they have been approved. Monthly reports are prepared for the board of directors and management detailing and analyzing the portfolio risk profile and any significant changes from the prior report. Credits to obligors with total Ex-Im Bank exposure of \$20 million or more are individually re-evaluated semiannually after approval.

V. RISK PROFILE OF EXPOSURE

FY 2004 Authorizations

Ex-Im Bank classifies credits into 11 risk categories, with level 1 being the lowest risk. Ex-Im Bank generally does not authorize new credits that would be risk-rated below level 8. On this scale, level 3 is approximately equivalent to Standard and Poor’s BBB, level 4 approximates BBB-, and level 5 approximates BB.

The overall weighted-average-risk rating of FY 2004 medium-term and long-term export credit authorizations was 4.07. This is less risky than the 5.03 average for such authorizations made in FY 2003. Fifty-five percent of Ex-Im Bank’s medium-term and long-term authorizations in FY 2004 fell in the level 3-to-5 range (BBB to BB) while 11 percent were rated level 7 or 8 (B or B-).

The following exhibit shows the risk profile of Ex-Im Bank’s medium-term and long-term authorizations in FY 2004 and FY 2003 and the past five year average risk profile.

Exhibit 8: FY 2004 Medium-Term and Long-Term Authorizations by Risk Category

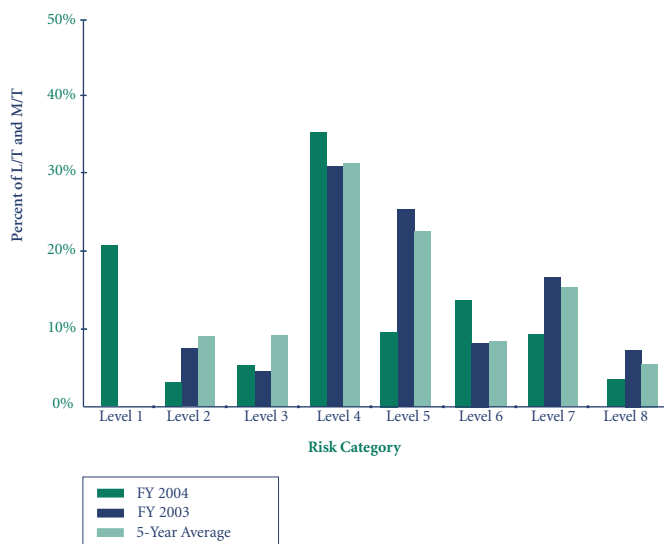


Exhibit 9 shows FY 2003 and FY 2004 medium-term and long-term authorizations by amount and risk category.

Exhibit 9: Medium-Term and Long-Term Authorizations By Amount and Risk Category

(in millions)	FY 2004	FY 2003	Difference
Level 1	\$1,818.0	\$0.0	\$1,818.0
Level 2	263.7	575.7	(312.0)
Level 3	467.2	351.4	115.8
Level 4	3,086.0	2,313.7	772.3
Level 5	850.6	1,951.9	(1,101.3)
Level 6	1,199.0	640.5	558.5
Level 7	830.9	1,287.7	(456.8)
Level 8	268.3	567.2	(298.9)
TOTAL	\$8,783.7	\$7,688.1	\$1,095.6

Fiscal-Year-End Exposure

The following table summarizes total Ex-Im Bank exposure by type of exposure and shows each type of exposure as a percent of the total exposure at the end of the respective fiscal year.

Exhibit 10: Exposure by Type and Percent

(in millions)	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
Guarantees	\$37,353.1	\$39,184.7	\$38,595.9	\$36,948.2	\$36,944.2
Borrowings Consolidated from VIEs	\$4,008.5	\$841.0	N/A	N/A	N/A
Loans Receivable	9,288.3	9,998.5	10,324.2	10,614.6	9,948.5
Insurance	6,183.8	6,261.1	3,987.4	4,822.5	7,857.5
Receivables from Subrogated Claims	3,895.1	3,976.0	4,116.3	4,181.4	4,233.3
Undisbursed Loans	419.4	550.7	1,093.8	1,858.8	2,612.2
TOTAL EXPOSURE	\$61,148.2	\$60,812.0	\$58,117.6	\$58,425.5	\$61,595.7

(% to Total)	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
Guarantees	61.1%	64.5%	66.3%	63.1%	59.9%
Borrowings Consolidated from VIEs	6.6%	1.4%	N/A	N/A	N/A
Loans Receivable	15.2%	16.4%	17.8%	18.2%	16.2%
Insurance	10.1%	10.3%	6.9%	8.3%	12.8%
Receivables from Subrogated Claims	6.4%	6.5%	7.1%	7.2%	6.9%
Undisbursed Loans	0.7%	0.9%	1.9%	3.2%	4.2%
TOTAL EXPOSURE	100.0%	100.0%	100.0%	100.0%	100.0%

Total exposure over the five-year period has remained relatively constant at an average of \$60 billion. As a percent of total exposure, direct loans Ex-Im Bank has supported, including undisbursed loans, has declined while guarantee exposure has increased. The VIE borrowings consolidated onto the financial statements were previously authorized

and accounted for as guarantee transactions; thus, consolidating these transactions has not altered the risk profile of Ex-Im Bank business.

The following table summarizes total Ex-Im Bank exposure by geographic region as of the end of the fiscal year. The table shows that the geographic exposure has been relatively stable over the past five years.

Exhibit 11: Geographic Exposure

(in millions)	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
Asia	\$17,967.5	\$20,229.5	\$19,065.9	\$19,350.2	\$19,390.6
Latin America	15,570.3	14,983.9	15,710.7	14,814.4	14,591.5
Europe/Canada	10,840.7	10,491.1	10,069.7	10,029.2	10,618.9
Africa/Middle East	9,222.3	9,008.1	8,684.8	9,380.8	9,708.6
All Other	7,547.4	6,099.4	4,586.5	4,850.9	7,286.1
TOTAL EXPOSURE	\$61,148.2	\$60,812.0	\$58,117.6	\$58,425.5	\$61,595.7

(% to Total)	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
Asia	29.4%	33.3%	32.9%	33.0%	31.5%
Latin America	25.5%	24.6%	27.0%	25.4%	23.7%
Europe/Canada	17.7%	17.3%	17.3%	17.2%	17.2%
Africa/Middle East	15.1%	14.8%	14.9%	16.1%	15.8%
All Other	12.3%	10.0%	7.9%	8.3%	11.8%
TOTAL EXPOSURE	100.0%	100.0%	100.0%	100.0%	100.0%

Exhibit 12 shows exposure by the major industrial sectors represented in the Bank's portfolio.

Exhibit 12: Industry Exposure

(in millions)	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
Air Transportation	\$23,475.0	\$21,659.1	\$19,816.8	\$18,364.4	\$18,107.4
Power Projects	6,577.7	7,067.6	8,154.8	8,383.0	8,676.7
Oil and Gas	6,415.5	6,166.9	6,275.5	6,475.9	6,091.0
Manufacturing	4,309.1	4,320.7	4,806.4	5,204.3	6,694.0
All Other	20,370.9	21,597.7	19,064.1	19,997.9	22,026.6
TOTAL EXPOSURE	\$61,148.2	\$60,812.0	\$58,117.6	\$58,425.5	\$61,595.7

(% to Total)	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
Air Transportation	38.4%	35.6%	34.1%	31.4%	29.4%
Power Projects	10.8%	11.6%	14.0%	14.3%	14.1%
Oil and Gas	10.5%	10.1%	10.8%	11.1%	9.9%
Manufacturing	7.0%	7.1%	8.3%	8.9%	10.9%
All Other	33.3%	35.6%	32.8%	34.3%	35.7%
TOTAL EXPOSURE	100.0%	100.0%	100.0%	100.0%	100.0%

Of the portfolio at September 30, 2004, 50 percent represents credits to public sector obligors or guarantors (32 percent to sovereign obligors or guarantors and 18 percent to public non sovereign entities);

50 percent represents credits to private sector obligors. A breakdown of public versus private sector exposure is shown in the following table.

Exhibit 13: Public and Private Obligors

Year End	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
Private Obligors	49.5%	45.9%	42.9%	40.7%	41.4%
Public Obligors	50.5%	54.1%	57.1%	59.3%	58.6%

Foreign Currency Exposure

At the end of FY 2004, Ex-Im Bank had 32 transactions denominated in a foreign currency. Using the foreign currency exchange rate at September 30, 2004, Ex-Im Bank adjusted the dollar amount of the outstanding balance for these transactions. The adjustment was an increase of exposure of \$547.9 million for a total exposure of \$4,800.9 million for foreign-currency-denominated guarantees.

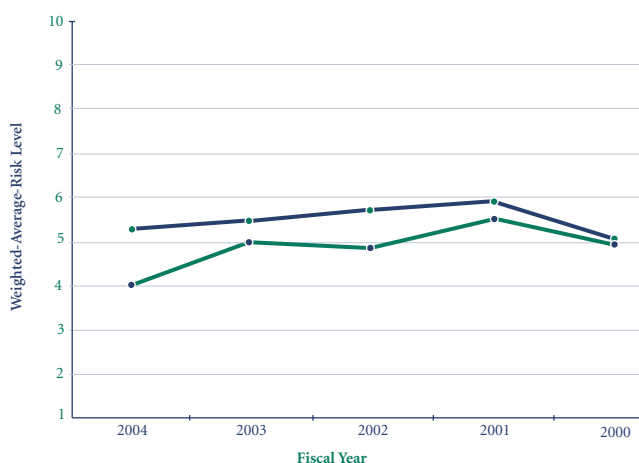
Exhibit 14: U.S. Dollar Value of Foreign Currency Exposure as of September 30, 2004 (by Currency)

(in millions)	Exposure	% of Total
Euro	\$2,278.3	47.5%
Canadian Dollar	746.8	15.6%
Australian Dollar	677.9	14.1%
Japanese Yen	633.3	13.2%
British Pound	259.9	5.4%
South African Rand	193.3	4.0%
All Other	11.4	0.2%
TOTAL	\$4,800.9	100.0%

Changes in the Portfolio Risk Level

At the end of FY 2004, Ex-Im Bank had a portfolio of \$61,148.2 million of loans, guarantees, insurance and outstanding claims receivable, only slightly higher than the balance of \$60,812.0 million at the end of FY 2003. Exhibit 15 shows the weighted-average-risk rating for new authorizations and the outstanding portfolio over the past five fiscal years. The new business risk level includes all medium-term and long-term transactions authorized in each respective fiscal year and reflects the weighted-average-risk rating for these authorizations. The outstanding portfolio above includes new business transactions and the existing portfolio risk-rated at the end of each fiscal year. As can be seen below, the risk rating for new business and the outstanding portfolio has gradually improved over the past several fiscal years.

Exhibit 15: Credit Quality: Risk Profile



Fiscal Year	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
■ New Business	4.07	5.03	4.90	5.50	4.95
■ Outstanding	5.30	5.49	5.68	5.87	4.96

VI. LOSS RESERVE METHODOLOGY

The process by which Ex-Im Bank determines its loss reserves for each fiscal year involves assessing the repayment risk of the credit, which includes both commercial and political risk factors, then calculating the loss reserve based on the percentage of loss associated with the risk level assigned to the credit.

Ex-Im Bank has separately determined loss reserves for short-term insurance exposure and for the risk of exposure concentration, both of which are discussed below.

Sovereign Obligor Ratings

Sovereign risk is associated with an obligor that conveys the full faith and credit of its country. To rate sovereign obligors, Ex-Im Bank relies on the risk levels assigned to sovereign countries by ICRAS.

Non-Sovereign Obligor Ratings

Semiannually, Ex-Im Bank makes a case-by-case assessment of the risk level of its largest obligors (outstanding exposure in excess of \$20 million) in its non-sovereign portfolio. At September 30, 2004, these

entities comprise 56 percent of Ex-Im Bank's total portfolio. The risk assessment is based on two major factors: the credit risk of the obligor and its industry sector and the risk associated with the country where the obligor is legally domiciled as a business entity. Airlines, large corporates, and project finance cases are risk-rated based on risk-rating methodologies specific to those types of transactions.

To assess the obligor risk, the non-sovereign obligors are divided into four categories: (1) obligors in workout status; (2) obligors rated by third-parties rating agencies, i.e., Standard & Poor's and Moody's; (3) obligors not rated but publicly traded on local exchanges; and (4) obligors neither rated nor publicly traded on local exchanges.

After the political and commercial risks of the transaction are assessed, the transaction is assigned a risk rating based on the standard ICRAS classification. A major determinant of the risk rating is the sovereign-risk rating of the country in which the obligor or guarantor is located. Credit enhancements such as the availability of liens and off-shore escrow accounts are taken into account.

For obligors with exposure less than \$20 million, the risk rating is adjusted so that the current risk rating bears the same relationship to the current ICRAS country rating that the original risk rating bore to the original ICRAS country rating at time of authorization.

Loss Percentage

Each of the 11 risk levels are identified with a loss percentage to determine the overall allowance for credit losses. The loss percentage for each risk level is based on the risk premia model developed by OMB, discussed previously, to calculate subsidy costs.

Allowance for Losses on Non-impaired Loans and Claims Receivable

For non-impaired loans and claims receivable, Ex-Im Bank determines the allowance using the OMB risk premia. The allowance for losses on this exposure is calculated using the credit loss estimate method. Consistent with FAS 5 and industry practice, this is an estimate of the loss expected due to credit risk and does not include non-credit factors that are included in the fair-market value method.

Allowance for Losses on VIE Lease Receivables

The leases associated with consolidated VIEs are classified as direct financing leases in accordance with FAS 13, and the loss reserve is calculated according to the probable loss due to credit risk.

Allowance for Losses on Impaired Loans and Claims Receivable

Ex-Im Bank generally considers a credit impaired if it meets one or more of the following: (1) delinquent loans and claims with an amount of \$50,000 or more past due at least 90 days; (2) rescheduled loans and rescheduled claims; and (3) non-delinquent loans and claims above a certain risk rating.

Loss reserves on impaired credits are determined using the fair value method. This practice is consistent with FAS 114 guidance that requires impaired loans to be measured based on the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or the fair-market value of the collateral if the loan is collateral dependent.

Allowance for Losses on Guarantees and Medium-term Insurance

The allowance for losses on Ex-Im Bank's contingent liabilities for medium-term and long-term guarantees and medium-term insurance is determined using the fair-value method. See the discussion in the notes to the financial statements.

Allowance for Losses on Export Credit Insurance Exposure

Ex-Im Bank separately determines the allowance for losses for short-term export credit insurance. The methodology assumes that repayment of a portion of the shipments outstanding at fiscal year end either may be already in default but not yet reported by the insured or will be defaulted and become a claim in the future. Under this methodology, the allowance for losses provided for short-term export credit insurance exposure is a combination of the percentage of claims paid to total shipments and the percentage of claims recovered to claims paid over the last 15 years as a percentage of current shipments outstanding.

Allowance for Concentration Risk

In addition to the loss reserves based on an obligor's individual risk rating, Ex-Im Bank also provides an additional loss reserves to account for the risk of exposure concentration. The additional loss reserve is determined based on five percent of the combined exposure of five countries with the largest outstanding loan and claim exposures in Ex-Im Bank's portfolio. The five percent is a comprehensive factor that Ex-Im Bank management believes is reasonable and sufficient to account for the risk of exposure concentration.

Undisbursed Balances

Ex-Im Bank's historical cancellation rate for authorized credits is approximately 15 percent. Consequently, Ex-Im Bank records a 15 percent decrease for loss-reserve purposes to undisbursed balances.

Allowance for Losses

The total allowance for losses (loss reserve) at September 30, 2004, for loans, claims, guarantee and insurance commitments and lease receivables is \$9,613.4 million, which is 16 percent of total exposure of \$61,148.2 million. This compares to the total loss reserve at September 30, 2003, for loans, claims receivable, and guarantee and insurance commitments of \$10,862.6 million that was 18 percent of total exposure of \$60,812.0 million.

Exhibit 16: Loss Reserves and Exposure

(in millions)	FY 2004	FY 2003
LOSS RESERVES		
Allowance for Loan Losses	\$1,713.7	\$1,975.7
Allowance for Claim Losses	1,628.7	\$1,586.3
Allowance for VIE Lease Receivables	193.3	\$37.0
Allowance for Guarantees, Insurance and Undisbursed Loans	6,077.7	\$7,263.6
TOTAL	\$9,613.4	\$10,862.6
TOTAL EXPOSURE		
Loans Receivable	\$9,288.3	\$9,998.5
Receivables from Subrogated Claims	3,895.1	3,976.0
Guarantees and Insurance	47,545.4	46,286.8
Undisbursed Loans	419.4	550.7
TOTAL EXPOSURE	\$61,148.2	\$60,812.0
LOSS RESERVE AS PERCENT (%) OF TOTAL EXPOSURE	15.7%	17.9%

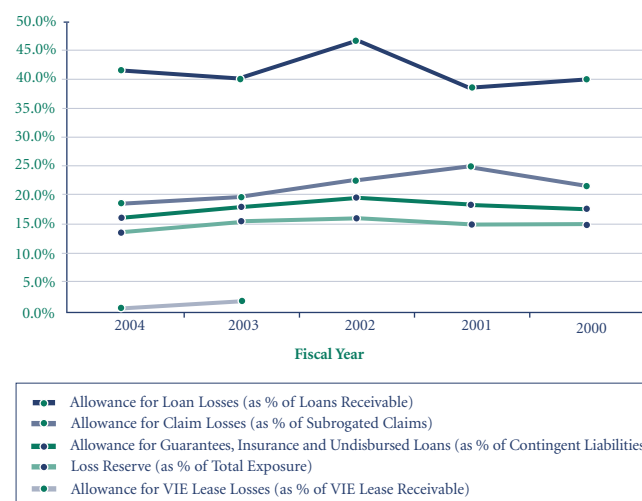
Of Ex-Im Bank's \$13,183.4 million in loans and claims exposure as of September 30, 2004, \$4,600.1 million is classified as impaired. Loss reserves on the impaired portion of Ex-Im Bank's exposure are \$2,578.7 million for outstanding loans and claims. Of Ex-Im Bank's \$13,974.5 million in loans and claims exposure as of September 30, 2003, \$4,774.9 million was

classified as impaired. Loss reserves on the impaired portion of Ex-Im Bank's exposure was \$2,497.8 million for outstanding loans and claims.

Ex-Im Bank's exposure for guarantees, insurance and undisbursed loans is \$47,964.8 million as of September 30, 2004. Loss reserves on this exposure totals \$6,077.7 million. Ex-Im Bank's exposure for guarantees, insurance and undisbursed loans was \$46,837.5 million as of September 30, 2003. Loss reserves on this exposure totaled \$7,263.6 million.

The following chart, Exhibit 17, illustrates the loss reserve balance, net of capitalized interest and unamortized discount and exposure fees, as a percentage of loans receivable, receivables from subrogated claims, contingent liabilities, VIE lease receivables, and total exposure, respectively.

Exhibit 17: Loss Reserves Summary



VII. CRITICAL ACCOUNTING POLICIES

Ex-Im Bank's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. Ex-Im Bank's critical accounting policies are described below.

Allowance for Losses

Under SFAS No. 5, Ex-Im Bank is required to make an estimate of the impairment of its loan, guarantee and insurance portfolio and report that amount as an allowance for credit losses. To do this, Ex-Im Bank uses a methodology related to the methodology developed by OMB to risk-rate new U.S. government loans and guarantees.

Under SFAS No. 114, Ex-Im Bank is required to measure impaired loans on the basis of the present value of expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price. This requires management to judge when a loan is impaired. Ex-Im Bank generally considers a loan or claim as impaired if one or more of the following conditions exist: (1) delinquent (\$50,000 or more past due at least 90 days), (2) rescheduled loans and rescheduled claims, and (3) non-delinquent loans and claims risk-rated above a certain risk rating.

Estimates of the level of risk in Ex-Im Bank's credit transactions are central to the application of both of the above accounting standards. The level of risk of credits may change in an unpredictable manner because of financial, economic and political events impacting specific companies and countries. Consequently, significant and unanticipated changes in Ex-Im Bank's allowance for credit losses may occur in any year.

Guarantees

Under the provisions of FIN 45, Ex-Im Bank is required to recognize, at the inception of a guarantee, a liability for its fair value. FIN 45 applies to guarantees issued after December 31, 2002. For further information, refer to Note 10 in the Notes to the Financial Statements.

Variable Interest Entities

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities," which addresses the consolidation of certain entities when control exists through other than voting interests. Ex-Im Bank is the primary beneficiary of certain variable interest entities (VIEs) that have been created in connection with security arrangements for certain export credits, primarily Ex-Im Bank-guaranteed financing for exports of commercial jet aircraft.

The financial statements reflect the consolidation of all VIEs where Ex-Im Bank is the primary beneficiary which were established after January 31, 2003. For further information, refer to Note 3 in the Notes to the Financial Statements.

Interest Income

Interest on the Bank's loans is accrued and taken into income as it is earned. The accrual of interest income on loans is discontinued for financial statement purposes if payment of principal or interest is delinquent for 90 days or more and the loan is not well-secured and in the process of collection. Loans that have been non-accruing and are

current at fiscal year-end only because previously delinquent installments have been rescheduled remain non-accruing. Loans which have been non-accruing and are brought current by cash payment (as opposed to rescheduling delinquent installments) and are classified as portfolio risk 6 or better at fiscal year-end are made accruing at the next payment date, if the principal and/or interest is paid in full and timely (within 30 days of the due date). If the amount due is not paid in full or is late, the loan remains non-accruing.

Loans may be made non-accruing due to a specific cause (i.e. by agreement) which can occur anytime throughout the year. In these cases, interest stops accruing according to the terms dictated by the implementation of the event causing the non-accrual.

All interest receivable on a loan placed in non-accruing status is charged against interest income in the year the loan is placed in a non-accruing status. Any interest subsequently collected on the loan is taken into interest income on a cash basis.

Loans and claims receivable are written off when the Bank determines that the remaining balance of a loan or claim receivable is uncollectible. Government-wide debt relief initiatives may also require Ex-Im Bank to write-off specific debt identified in the debt relief proposal.

Deferred Fees

Refer to Note 1 in the Notes to Financial Statement Section.

VIII. SIGNIFICANT FINANCIAL STATUTORY LIMITATIONS

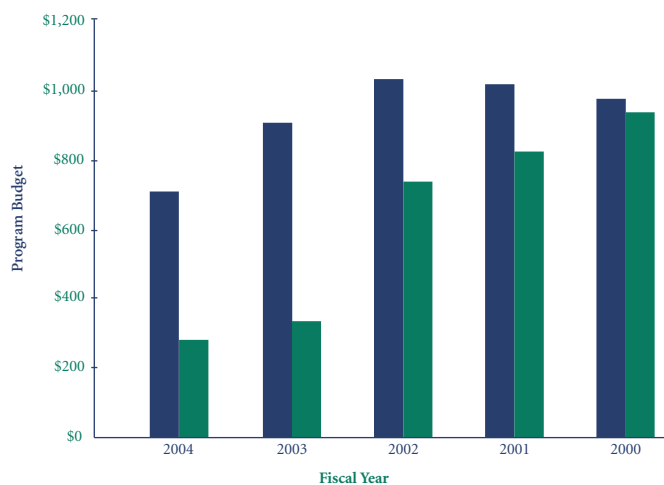
Ex-Im Bank has several significant financial limitations that are contained in the Export-Import Bank Act of 1945, as amended and in various appropriation acts. The following exhibits summarize the status of those limitations as of September 30, 2004, as well as the utilization of available funding.

Exhibit 18: Financial Statutory Limitations

(in millions)	PROGRAM BUDGET	ADMINISTRATIVE	
		TIED-AID	EXPENSE
APPROPRIATIONS			
Carry-over from Prior Year	\$574.8	\$260.5	N/A
Cancellations during FY 2004	149.3	0.0	N/A
FY 2004 Appropriation	0.0	0.0	72.5
Subtotal	\$724.1	\$260.5	\$72.5
Obligated	279.1	0.0	72.3
BALANCE	\$445.0	\$260.5	\$0.2
	AVAILABLE	OBLIGATED	BALANCE
Statutory Lending Authority	\$90,000.0	\$61,148.2	\$28,851.8

Tied-aid is government-to-government concessional financing of public sector capital projects in developing countries. Tied-aid terms usually involve total maturities longer than 20 years, lower than market interest rates, and/or direct grants.

Exhibit 19: Non Tied-Aid Program Budget Appropriation Available and Utilized



Fiscal Year	FY 2004	FY 2003	FY 2002	FY 2001	FY 2000
Available	\$724.1	\$909.0	\$1,036.0	\$1,016.0	\$976.0
Utilized	\$279.1	\$334.0	\$738.0	\$826.0	\$938.0